

Senate Study Bill 1354

SENATE FILE _____
BY (PROPOSED COMMITTEE ON WAYS
AND MEANS BILL BY
CHAIRPERSON BOLKCOM)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the state earned income tax credit by
2 increasing the amount of the tax credit and making the tax
3 credit refundable and including effective and retroactive
4 applicability date provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
6 TLSB 2247XC 82
7 mg/gg/14

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1 1 Section 1. Section 422.12B, subsection 1, Code 2007, is
1 2 amended to read as follows:
1 3 1. The taxes imposed under this division less the credits
1 4 allowed under section 422.12 shall be reduced by an earned
1 5 income credit equal to ~~six and one-half~~ seven percent of the
1 6 federal earned income credit provided in section 32 of the
1 7 Internal Revenue Code. Any credit in excess of the tax
1 8 liability is ~~nonrefundable~~ refundable.

1 9 COORDINATING AMENDMENTS

1 10 Sec. 2. Section 422.11, Code 2007, is amended to read as
1 11 follows:

1 12 422.11 FRANCHISE TAX CREDIT.

1 13 The taxes imposed under this division, less the credits
1 14 allowed under ~~sections section~~ section 422.12 ~~and 422.12B~~, shall be
1 15 reduced by a franchise tax credit. A taxpayer who is a
1 16 shareholder in a financial institution, as defined in section
1 17 581 of the Internal Revenue Code, which has in effect for the
1 18 tax year an election under subchapter S of the Internal
1 19 Revenue Code, or is a member of a financial institution
1 20 organized as a limited liability company under chapter 524
1 21 that is taxed as a partnership for federal income tax
1 22 purposes, shall compute the amount of the tax credit by
1 23 recomputing the amount of tax under this division by reducing
1 24 the taxable income of the taxpayer by the taxpayer's pro rata
1 25 share of the items of income and expense of the financial
1 26 institution and subtracting the credits allowed under ~~sections~~
1 27 section 422.12 ~~and 422.12B~~. This recomputed tax shall be
1 28 subtracted from the amount of tax computed under this division
1 29 after the deduction for credits allowed under ~~sections section~~
1 30 section 422.12 ~~and 422.12B~~. The resulting amount, which shall not
1 31 exceed the taxpayer's pro rata share of the franchise tax paid
1 32 by the financial institution, is the amount of the franchise
1 33 tax credit allowed.

1 34 Sec. 3. Section 422.11A, Code 2007, is amended to read as
1 35 follows:

2 1 422.11A NEW JOBS TAX CREDIT.

2 2 The taxes imposed under this division, less the credits
2 3 allowed under ~~sections section~~ section 422.12 ~~and 422.12B~~, shall be
2 4 reduced by a new jobs tax credit. An industry which has
2 5 entered into an agreement under chapter 260E and which has
2 6 increased its base employment level by at least ten percent
2 7 within the time set in the agreement or, in the case of an
2 8 industry without a base employment level, adds new jobs within
2 9 the time set in the agreement is entitled to this new jobs tax
2 10 credit for the tax year selected by the industry. In
2 11 determining if the industry has increased its base employment
2 12 level by ten percent or added new jobs, only those new jobs
2 13 directly resulting from the project covered by the agreement
2 14 and those directly related to those new jobs shall be counted.
2 15 The amount of this credit is equal to the product of six
2 16 percent of the taxable wages upon which an employer is

2 17 required to contribute to the state unemployment compensation
2 18 fund, as defined in section 96.19, subsection 37, times the
2 19 number of new jobs existing in the tax year that directly
2 20 result from the project covered by the agreement or new jobs
2 21 that directly result from those new jobs. The tax year chosen
2 22 by the industry shall either begin or end during the period
2 23 beginning with the date of the agreement and ending with the
2 24 date by which the project is to be completed under the
2 25 agreement. An individual may claim the new jobs tax credit
2 26 allowed a partnership, subchapter S corporation, or estate or
2 27 trust electing to have the income taxed directly to the
2 28 individual. The amount claimed by the individual shall be
2 29 based upon the pro rata share of the individual's earnings of
2 30 the partnership, subchapter S corporation, or estate or trust.
2 31 Any credit in excess of the tax liability for the tax year may
2 32 be credited to the tax liability for the following ten tax
2 33 years or until depleted, whichever is the earlier. For
2 34 purposes of this section, "agreement", "industry", "new job"
2 35 and "project" mean the same as defined in section 260E.2 and
3 1 "base employment level" means the number of full-time jobs an
3 2 industry employs at the plant site which is covered by an
3 3 agreement under chapter 260E on the date of that agreement.

3 4 Sec. 4. Section 422.11C, subsection 2, unnumbered
3 5 paragraph 1, Code 2007, is amended to read as follows:
3 6 The taxes imposed under this division, less the credits
3 7 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
3 8 reduced by an ethanol blended gasoline tax credit for each tax
3 9 year that the taxpayer is eligible to claim the tax credit
3 10 under this section. In order to be eligible, all of the
3 11 following must apply:

3 12 Sec. 5. Section 422.11D, subsection 1, Code 2007, is
3 13 amended to read as follows:

3 14 1. The taxes imposed under this division, less the credits
3 15 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
3 16 reduced by a historic preservation and cultural and
3 17 entertainment district tax credit equal to the amount as
3 18 computed under chapter 404A for rehabilitating eligible
3 19 property. Any credit in excess of the tax liability shall be
3 20 refunded as provided in section 404A.4, subsection 3.

3 21 Sec. 6. Section 422.11E, subsection 1, Code 2007, is
3 22 amended to read as follows:

3 23 1. The taxes imposed under this division, less the credits
3 24 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
3 25 reduced by an assistive device tax credit. A small business
3 26 purchasing, renting, or modifying an assistive device or
3 27 making workplace modifications for an individual with a
3 28 disability who is employed or will be employed by the small
3 29 business is eligible, subject to availability of credits, to
3 30 receive this assistive device tax credit which is equal to
3 31 fifty percent of the first five thousand dollars paid during
3 32 the tax year for the purchase, rental, or modification of the
3 33 assistive device or for making the workplace modifications.
3 34 Any credit in excess of the tax liability shall be refunded
3 35 with interest computed under section 422.25. In lieu of

4 1 claiming a refund, a taxpayer may elect to have the
4 2 overpayment shown on the taxpayer's final, completed return
4 3 credited to the tax liability for the following tax year. If
4 4 the small business elects to take the assistive device tax
4 5 credit, the small business shall not deduct for Iowa tax
4 6 purposes any amount of the cost of an assistive device or
4 7 workplace modifications which is deductible for federal tax
4 8 purposes.

4 9 Sec. 7. Section 422.11F, Code 2007, is amended to read as
4 10 follows:

4 11 422.11F INVESTMENT TAX CREDITS.

4 12 1. The taxes imposed under this division, less the credits
4 13 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
4 14 reduced by an investment tax credit authorized pursuant to
4 15 section 15E.43 for an investment in a qualifying business or a
4 16 community-based seed capital fund.

4 17 2. The taxes imposed under this division, less the credits
4 18 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
4 19 reduced by investment tax credits authorized pursuant to
4 20 sections 15.333 and 15E.193B, subsection 6.

4 21 Sec. 8. Section 422.11G, Code 2007, is amended to read as
4 22 follows:

4 23 422.11G VENTURE CAPITAL FUND INVESTMENT TAX CREDIT.

4 24 The tax imposed under this division, less the credits
4 25 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
4 26 reduced by a venture capital fund investment tax credit
4 27 authorized pursuant to section 15E.51.

4 28 Sec. 9. Section 422.11H, Code 2007, is amended to read as
4 29 follows:

4 30 422.11H ENDOW IOWA TAX CREDIT.

4 31 The tax imposed under this division, less the credits
4 32 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
4 33 reduced by an endow Iowa tax credit authorized pursuant to
4 34 section 15E.305.

4 35 Sec. 10. Section 422.11I, subsection 1, unnumbered
5 1 paragraph 1, Code 2007, is amended to read as follows:

5 2 The taxes imposed under this division, less the credits
5 3 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
5 4 reduced by a soy-based cutting tool oil tax credit. A
5 5 manufacturer, as defined in section 428.20, is eligible to
5 6 receive a soy-based cutting tool oil tax credit which is equal
5 7 to the costs incurred by the manufacturer during the tax year
5 8 for the purchase and replacement costs relating to the
5 9 transition from using nonsoy-based cutting tool oil to using
5 10 soy-based cutting tool oil. The costs eligible for the credit
5 11 are limited to those costs meeting all of the following
5 12 requirements:

5 13 Sec. 11. Section 422.11J, Code 2007, is amended to read as
5 14 follows:

5 15 422.11J TAX CREDITS FOR WIND ENERGY PRODUCTION AND
5 16 RENEWABLE ENERGY.

5 17 The taxes imposed under this division, less the credits
5 18 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
5 19 reduced by tax credits for wind energy production allowed
5 20 under chapter 476B and for renewable energy allowed under
5 21 chapter 476C.

5 22 Sec. 12. Section 422.11K, Code 2007, is amended to read as
5 23 follows:

5 24 422.11K ECONOMIC DEVELOPMENT REGION REVOLVING FUND
5 25 CONTRIBUTION TAX CREDIT.

5 26 The taxes imposed under this division, less the credits
5 27 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
5 28 reduced by an economic development region revolving fund
5 29 contribution tax credit authorized pursuant to section
5 30 15E.232.

5 31 Sec. 13. Section 422.11L, Code 2007, is amended to read as
5 32 follows:

5 33 422.11L WAGE-BENEFITS TAX CREDIT.

5 34 The taxes imposed under this division, less the credits
5 35 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
6 1 reduced by a wage-benefits tax credit authorized pursuant to
6 2 section 15I.2.

6 3 Sec. 14. Section 422.11M, Code 2007, is amended to read as
6 4 follows:

6 5 422.11M AGRICULTURAL ASSETS TRANSFERRED TO BEGINNING
6 6 FARMERS.

6 7 The taxes imposed under this division, less the credits
6 8 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
6 9 reduced by an agricultural assets transfer tax credit as
6 10 allowed under section 175.37.

6 11 Sec. 15. Section 422.11N, subsection 3, unnumbered
6 12 paragraph 1, Code 2007, is amended to read as follows:

6 13 The taxes imposed under this division, less the credits
6 14 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
6 15 reduced by an ethanol promotion tax credit for each tax year
6 16 that the taxpayer is eligible to claim the tax credit under
6 17 this section. In order to be eligible, all of the following
6 18 must apply:

6 19 Sec. 16. Section 422.11O, subsection 2, unnumbered
6 20 paragraph 1, Code 2007, is amended to read as follows:

6 21 The taxes imposed under this division, less the credits
6 22 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
6 23 reduced by an E-85 gasoline promotion tax credit for each tax
6 24 year that the taxpayer is eligible to claim the tax credit
6 25 under this subsection. In order to be eligible, all of the
6 26 following must apply:

6 27 Sec. 17. Section 422.11P, subsection 2, unnumbered
6 28 paragraph 1, Code 2007, is amended to read as follows:

6 29 The taxes imposed under this division, less the credits
6 30 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be
6 31 reduced by the amount of the biodiesel blended fuel tax credit
6 32 for each tax year that the taxpayer is eligible to claim a tax
6 33 credit under this subsection.

6 34 Sec. 18. Section 422.11Q, Code 2007, is amended to read as
6 35 follows:

7 1 422.11Q IOWA FUND OF FUNDS TAX CREDIT.

7 2 The taxes imposed under this division, less the credits
7 3 allowed under ~~sections~~ section 422.12 and ~~422.12B~~, shall be

7 4 reduced by a tax credit authorized pursuant to section 15E.66,
7 5 if redeemed, for investments in the Iowa fund of funds.

7 6 Sec. 19. Section 422.11R, Code 2007, is amended to read as
7 7 follows:

7 8 422.11R SOY=BASED TRANSFORMER FLUID TAX CREDIT.

7 9 The taxes imposed under this division, less the credits
7 10 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
7 11 reduced by a soy-based transformer fluid tax credit allowed
7 12 under chapter 476D.

7 13 This section is repealed December 31, 2008.

7 14 Sec. 20. Section 422.11S, subsection 1, Code 2007, is
7 15 amended to read as follows:

7 16 1. The taxes imposed under this division, less the credits
7 17 allowed under ~~sections section~~ 422.12 ~~and 422.12B~~, shall be
7 18 reduced by a school tuition organization tax credit equal to
7 19 sixty-five percent of the amount of the voluntary cash
7 20 contributions made by the taxpayer during the tax year to a
7 21 school tuition organization, subject to the total dollar value
7 22 of the organization's tax credit certificates as computed in
7 23 subsection 7. The tax credit shall be claimed by use of a tax
7 24 credit certificate as provided in subsection 6.

7 25 Sec. 21. Section 422.12, subsection 2, unnumbered
7 26 paragraph 1, Code 2007, is amended to read as follows:

7 27 A tuition credit equal to twenty-five percent of the first
7 28 one thousand dollars which the taxpayer has paid to others for
7 29 each dependent in grades kindergarten through twelve, for
7 30 tuition and textbooks of each dependent in attending an
7 31 elementary or secondary school situated in Iowa, which school
7 32 is accredited or approved under section 256.11, which is not
7 33 operated for profit, and which adheres to the provisions of
7 34 the federal Civil Rights Act of 1964 and chapter 216. As used
7 35 in this subsection, "textbooks" means books and other
8 1 instructional materials and equipment used in elementary and
8 2 secondary schools in teaching only those subjects legally and
8 3 commonly taught in public elementary and secondary schools in
8 4 this state and does not include instructional books and
8 5 materials used in the teaching of religious tenets, doctrines,
8 6 or worship, the purpose of which is to inculcate those tenets,
8 7 doctrines, or worship. "Textbooks" includes books or
8 8 materials used for extracurricular activities including
8 9 sporting events, musical or dramatic events, speech
8 10 activities, driver's education, or programs of a similar
8 11 nature. Notwithstanding any other provision, all other
8 12 credits allowed under this section ~~and section 422.12B~~ shall
8 13 be deducted before the tuition credit under this subsection.
8 14 The department, when conducting an audit of a taxpayer's
8 15 return, shall also audit the tuition tax credit portion of the
8 16 tax return.

8 17 Sec. 22. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

8 18 This Act, being deemed of immediate importance, takes effect
8 19 upon enactment and applies retroactively to January 1, 2007,
8 20 for tax years beginning on or after that date.

8 21 EXPLANATION

8 22 This bill increases the state earned income tax credit from
8 23 6.5 percent to 7 percent of the federal tax credit and makes
8 24 the state earned income tax credit refundable like the federal
8 25 earned income tax credit.

8 26 Because the bill makes the state tax credit refundable,
8 27 numerous coordinating amendments are made to other tax credits
8 28 that specify that the earned income tax credit is to be taken
8 29 before those other tax credits.

8 30 The bill takes effect upon enactment and applies
8 31 retroactively to January 1, 2007, for tax years beginning on
8 32 or after that date.

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